WASHINGTON NOTES

END OF GOVERNMENT PRICE-FIXING

After negotiations extending over a period of about two months with representatives of some of the principal trades of the country the government of the United States has at last definitely decided to abandon the effort to fix prices under a peace régime. The effort to bring about such a price-fixing policy had been initiated early in March through the organization of a so-called Industrial Board under the auspices of the Department of Commerce and with the consent and approval of the President. The purpose of this Industrial Board was to bring about adjustments between the government and the chief trade factors, whereby the latter would agree to establish fixed schedules of prices for their basic articles of commerce, instead of competing with one another in the effort to get business by cutting prices. The consequence of this policy would have been the substitution of trade agreements with qualified government approval for competitive conditions.

During April it appeared that some of the more important government bureaus, conspicuously the Railroad Administration, now the largest buyer of steel in the country, were disinclined to abide by the policies which had been developed under the auspices of the Industrial Board, but insisted upon obtaining their products, especially coal and steel, as cheaply as market conditions would allow. Under these circumstances it was unreasonable to expect consumers the country over to be guided by the schedules of prices which had been established through negotiations with the Industrial Board, notwithstanding that the government itself, which on the one hand was promoting these schedules, was on the other refusing to buy under them. The final result of the discussion was reached at a conference between steel producers and government representatives on May 8, at which it was agreed to abandon the further effort to get a standard schedule of prices, while almost simultaneously with this announcement the Director of Railroads made known that he had determined to place an order for 400,000 tons of rails upon a competitive price to be established through bids to be submitted by the principal producers. This, in effect, terminates the policy of government price-fixing and makes it plain that the readjustment of industry which is now expected to occur must continue as best it can, as the result of the efforts of individuals and without government sanction for any policy of suppressing competition. On May 9 it was unofficially announced at Washington that the policy of price-fixing had

been substantially abandoned throughout all lines, and that henceforward the competitive condition would be expected to supervene. This leaves open the question how far it will be possible to continue the standardized rates of wages which have been practically enforced by the government during the period of war, acting as the administration has through the agency of the National War Labor Board and regulating wages upon a basis supposedly corresponding to costs of living. Producers and manufacturers cannot continue to pay existing wages if prices fall, and if they are unable to reduce other costs of production to make up for them. The question thus becomes urgent whether labor will not find itself obliged to share in the readjustment process whose purpose it is to bring about a resumption of normal business and at least a gradual reduction of prices toward their old, or pre-war, level.

RESTORATION OF FREE MOVEMENT OF SILVER

The Federal Reserve Board on May 5 gave official notice that it had terminated the restrictions heretofore existing on the movement of silver and would henceforward grant without limitation all applications for the shipment of silver that might be presented to it. Simultaneously therewith it was announced that the Treasury Department would no longer continue to supply silver to private individuals under the Pittman Act, and that consequently the fixed or pegged price at $1.01½ per ounce had been removed. The immediate consequence of this action was to bring about an increase in the price of silver in the market to a figure of about $1.15½ per ounce within a few days after the withdrawal of government control. A large increase in the number of applications for permission to export silver has also been a natural consequence of the change of policy. This change of policy, however, must be regarded as constituting really another step toward the establishment of free trade in goods and in money metals throughout the world. It renders possible the use of silver in the making of shipments to South America and the Orient with a freedom corresponding to that which existed prior to the attempt to regulate Indian exchange early in 1918, and the accompanying effort to restrict trade with the Orient to something approximating what was considered a basis of "essential" commodities. Commercial demand now centers around the removal of the embargo on gold, it being the view of most persons that, were this embargo to be lifted, the United States could not possibly lose any considerable amount of gold, although small sums might possibly be exported to Japan and Spain. The general movement of gold, if any such occurred, would be rather in the direction of the

United States, and the harm to follow would be that of an increasing amount of inflation in this country with a tendency of prices to move upward. That this result would be undesirable is admitted, but it would be the exact reverse of the considerations which have controlled in the establishment of the gold restriction or embargo policy, copied as this was from Great Britain. Up to date the total amount of silver which has been removed from behind the silver certificates in order to provide a fund for exportation, subject to the restrictions and limitations of the Federal Reserve Board, has been approximately $200,000,000, while the amount of Federal Reserve bank notes which have been issued to take the place of these retired silver certificates has been $159,000,000. The net result of the interference with the movement of silver which has come about under the Pittman Act has accordingly been that of restoring the bond-secured element in our currency, not simply to its former level, but to very much higher figures than heretofore, although it is true that the new bond-secured notes are protected by better conditions of redemption than the old bond-secured notes of the pre-war régime. A survey of the silver policy of the United States during the war, however, can result only in a critical attitude, since it must appear that the net outcome of the regulations that were adopted and put into force has been decidedly injurious rather than helpful to business, while these restrictions, which would not have been called for had it not been for the embargo on gold, have proved to be very disturbing and injurious to both business and banking conditions, as well as a serious cause of unsettlement in foreign-exchange relationships.

ABOLITION OF THE "BLACK LIST"

According to official announcement made on April 28 by the War Trade Board at Washington the official black list was abandoned, while simultaneously therewith practically all specific restrictions upon the importation and exportation of goods calling for the issuance of licenses were revoked. This step followed the general action which had preceded it on the part of the Economic Council of the Allied Governments at Paris, in which such a policy had been recommended for the various nations. The effect in the case of the United States has been to relax, and in many cases almost to eliminate, the restrictions which had been placed upon the international movement of goods, while the abolition of the black list has naturally brought to a close the system of espionage and interception of mail and telegraphic and cable messages which had been constituted for the purpose of ascertaining the details of the financial

dealings of all persons possessing foreign connections. How far this system of espionage and interference extended is recognized only by comparatively few persons, the interruptions of business which have occurred under it being frequently attributed to military interference or to mechanical or technical difficulty with telegraphic or cable systems. The real truth of the situation is that this kind of interference has been carried to an extremely advanced point, and that its abolition at this time will inevitably result in putting business on an entirely new and better basis than it could otherwise possibly attain.

These steps were natural precursors of the announcement of the terms of the peace treaty which were made public on May 8. From the economic standpoint there is little in the terms of the peace treaty which had not been fairly well known or anticipated, and hardly anything which has a direct and immediate bearing upon economic questions. The peace treaty itself, however, when ratified will mean the reopening of world-business upon a normal basis and the resumption of commerce for the purpose of restoring the devastated areas of both France and Belgium and the idle or disorganized industrial areas of the Central Powers, which for lack of raw materials of production have been unable to engage in real productive work for some time past. In abolishing the black list and removing the restrictions on importations the war authorities merely took measures which would in any event be rendered necessary as a result of the peace treaty. Pending the signing of the peace treaty the limitations on the trade with the Central Powers of course continue technically in effect, although their relaxation with respect to neutral countries enables the Central Powers to obtain some supplies through these neutral markets just as they did during the early days of the war. The fact that that portion of Russia under the control of the Bolsheviki is also to be subject to trade restrictions, pending further announcement, indicates a disposition to subject Russia to a kind of economic isolation, but it is not of very great importance as long as no positive system of limitations is applied to trade with the neutral countries which are direct neighbors of Russia. President Wilson's action in summoning Congress on May 19 points the way of course to immediate action upon the treaty with the Central Powers, although how long a time will be required to bring about actual ratification remains to be determined and will be the outcome of a good many factors. It is, however, now seen to be entirely possible to obtain some final settlement of this whole matter by July 1, and that date is accordingly taken by many as the time (approximately at least) at which normal trade relations the world over will be restored.

CLOSE OF VICTORY LOAN

The fifth or Victory loan, which closed on May 10, brought in a total estimated subscription of between five and six billions of dollars, the offering having originally been set at $4,500,000,000. It had been announced in the first place that no over-subscriptions would be accepted, the point of view of the Department evidently being that heavy over-subscriptions during the fourth loan had resulted in the throwing of quantities of bonds upon the market, with the result of depreciation of values accompanied by other disturbances to financial conditions. This would in any case have prevented the acceptance of actual over-subscriptions, but it has been evident from the opening of the fifth loan that the public enthusiasm with regard to this form of borrowing was at a low ebb, and that it was desired by the community at large to be relieved of further appeals as far as practicable. This point of view is made evident by the fact that of the total which has been actually taken a very considerable percentage has been subscribed by the banks and trust companies, or by their officers for them. While they have been called upon less steadily for long-term loans and for loans representing a very large percentage (or the whole) of subscriptions to bonds, this lesser dependence of the public upon them has apparently been offset by their own heavier purchases, and by the fact that under the discount rates adopted at the opening of the loan there is a greater inducement than ever before for commercial banks to apply to reserve institutions for accommodation. In fact the rates adopted by reserve banks, instead of being, as in former loans, identical with the coupon rate on the bonds, have been from ½ of 1 per cent to ¾ of 1 per cent lower than the coupon rate on the Victory loan, with the result that there has been a distinct profit to banks in rediscounting. The purpose of this policy of course is clear and is that of inducing subscriptions by enabling the banks actually to make a profit through placing their paper with the reserve institutions.

At the outset of the fifth Victory loan, Secretary of the Treasury Glass had announced that it would be the last of the great popular loans, and that therefore the public need not at any time in the future expect to be called upon to come to the aid of the government in the same way as in these five great borrowing enterprises. Developments since the announcement referred to have shown that Treasury expenditures are likely to continue increasing, if anything, being at the present time on the basis of about $18,000,000,000 per annum. This, as is now recognized, of course means that if popular loans have really been terminated there

must be a resort to some new and tolerably expensive method of borrowing, since otherwise the government will be unable to meet expenses, its revenue at present being a great deal less than $5,000,000,000 per annum. The ending of the fifth Victory loan is therefore in no sense the close of the present era of public finance but only marks the transition to a new method of borrowing on a large scale. This method of borrowing, it now appears, is likely to be a regular "over-the-counter" sale of government securities somewhat after the "Thrift Stamp plan." Financing by means of certificates of indebtedness and by subsequent sales of Victory notes or bonds, probably on the over-the-counter plan, is expected, upon the basis of present outlook as to revenue and expenditure, to last fully eighteen months or two years. It is doubtful therefore whether much more than a beginning of the reduction of currency and banking inflation can be made during that time, although the reserve banks will probably be able to eliminate "war paper" from their portfolios within possibly a year from the present date.